

NYE-DT 39

Apache Corporation (APA)

Overweight

Announces New Delaware Basin Play

CONCLUSION

APA out with big news this morning as the company announced a new play in the Southern Delaware Basin called the Alpine High (located on the southwestern side of Reeves county). APA has 307K net acres of exposure to the wet gas play. APA estimates the Alpine High has hydrocarbons in place of 75 Tcf of natural gas and 3 billion barrels of oil in the Barnett and Woodford formations alone. APA is raising '16 capex guidance by 11% or \$200 MM to \$2.0 B. Capital spending on the Alpine High play in '16 should represent >25% of APA's total capital spending. APA also out with new details on their Permian asset base (well results, location count, etc.). The last time the company provided an extensive update on the Permian was at their Analyst Day in Nov '14. Overall, several catalysts today which could awaken a sleepy stock.

Key Highlights of the New Play (Alpine High):

- APA has 307K net acres in the play located in the Southern Delaware Basin, primarily in Reeves County. Acreage is located on the SW side of Reeves County, TX. APA leased 182K net acres in 2H'15 and 70K net acres in '16. APA's average leasehold cost is ~\$1,300/net acre.
- On its acreage, APA estimates hydrocarbons in place of 75 Tcf of natural gas and 3 billion barrels of oil in the Barnett and Woodford formations along. APA also sees significant oil potential in the shallower Pennsylvanian, Bone Springs and Wolfcamp formations.
- Alpine High has 4,000-5,000' of stacked pay in up to 5 distinct formations including the Bone Springs, Wolfcamp, Pennsylvanian, Barnett and Woodford.
- 2,000 to greater than 3,000 locations have been identified in the Woodford and Barnett formations alone. These formations are in the west gas window.
- Initial estimates of the Woodford and Barnett zones indicate a pretax, NPV of \$4-\$20 MM per well at \$50/\$3. Expected wells costs in development mode for a 4,100' lateral are estimated to be ~\$4 MM per well in normally pressured settings and \$6 MM in over-pressured settings.
- APA has drilled 19 wells in the play (6 in the Woodford, 1 in the Barnett, 1 in shallower Wolfcamp and 1 in shallower Bone Springs), with 9 currently producing in limited quantities due to infrastructure constraints. Woodford and Barnett can support a 6 rig program for over 20 years.
- Alpine High (Woodford/Barnett) formation depths: 10-13K ft. Thickness: 550-1,100 ft.

COMPANY DESCRIPTION

APA is a large-cap North American-focused producer with one of the largest acreage positions in the Permian Basin. Incrementally, APA has exposure to the Eagle Ford, the Anadarko Basin, the Duvernay, and the Montney. In addition to its North American asset base, APA has international assets located in Egypt and the North Sea. Over the past few years, APA has transitioned its portfolio and focus to onshore North America.

PRICE: US\$51.67

TARGET: US\$68.00

Our ~\$68 Price Target is derived from our NAV (a 50 year DCF discounted at 10 percent in addition to Q2'16 asset values).

Pearce Hammond, CFA

Sr. Research Analyst, Piper Jaffray & Co.
713 546-7269,
pearce.w.hammond@simmonspjc.com

Buddy Alpaugh

Research Analyst, Piper Jaffray & Co.
713 546-7253,
buddy.b.alpaugh@simmonspjc.com

RISKS TO ACHIEVEMENT OF
PT & RECOMMENDATION

APA has country-specific risk in Egypt (i.e., political turmoil, instability) where the company is the largest producer. A continuation of weak oil and natural gas prices is an industry risk.

Price Performance - 1 Year



Source: Bloomberg

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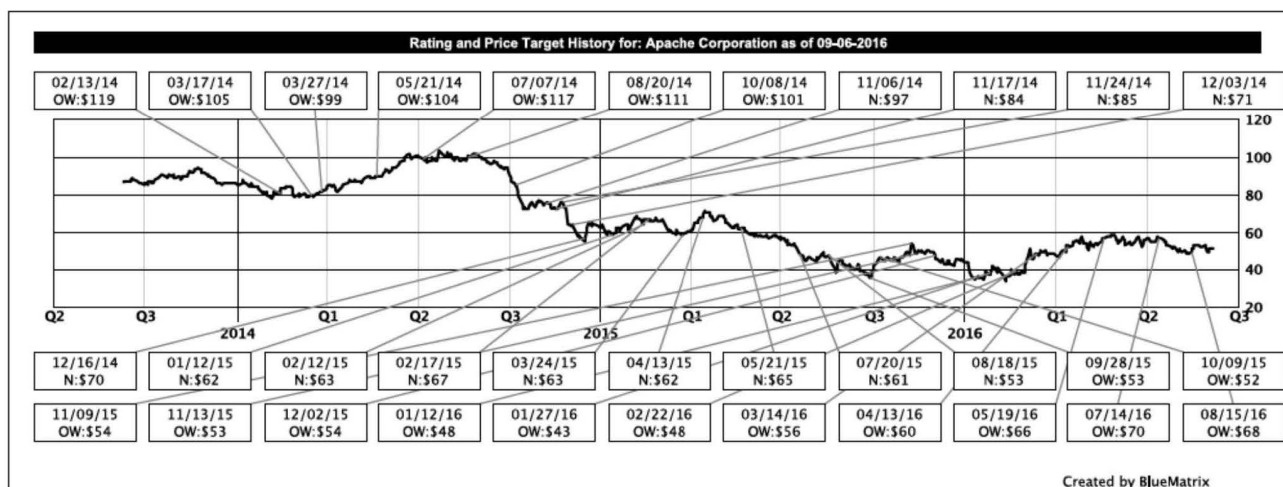
Other Data on Alpine High:

- Average btu content of gas: 1,300.
- APA detailed 7 well results from the play with average 24 hr gas IP rates of 8.2 MMcf/d and average 24 hr oil IP rates of 177 b/d (total boe/d for 24 hr average IP: 1,543 boe/d with 89% gas (before stripping out NGLs). These results were for short lateral (4,100') wells. In the gassier part of the play, the oil is more like a condensate at >50 degrees API.
- APA highlighted two oil well targets on the Alpine High acreage: Redwood 1P with 700 bo/d and 4.5 MMcf/d of natural gas. Mont Blanc 2H with 854 bo/d and 1.5 MMcf/d of natural gas. The oil was 45 and 43 degree oil respectively.
- One question would be how much infrastructure is in-place in SW Reeves county to process gas and NGLs.

Permian Update:

- Midland Basin core acreage: 193K net acres vs. ~200K net acres at the Nov '14 analyst day. Locations: 700 at \$50/bbl and 2,450-3,200 at \$60/bbl (Nov '14: >2,900 locations).
- Delaware Basin core acreage: 420K net acres vs. ~230K net acres at the Nov '14 analyst day.

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			Count	Percent
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